

Statement
First Pioneer Farm Credit
To the
Massachusetts Dairy Revitalization Task Force
Dairy Farm Costs of Production
August 10, 2007

My name is Robert A. Smith; I am Vice President for Public Affairs and Knowledge Exchange for First Pioneer Farm Credit. We appreciate the opportunity to make remarks relating to cost of production on Massachusetts dairy farms.

First Pioneer Farm Credit is a federally chartered lending cooperative that serves agriculture and rural communities in Massachusetts, Connecticut, New York, Rhode Island, New Jersey and New Hampshire. We lend to farms of all sizes and types in our region and have approximately 970 customer-members in Massachusetts including 95 dairy farmers. We extend in excess of \$37 million in credit to dairy farms in Massachusetts. We are a farmer-owned lender, governed by a farmer board of directors.

Dairy farming is an important part of the fabric of Massachusetts and generates hundreds of jobs both on and off the farm. We strongly support efforts intended to enhance dairy farm profitability.

2006 Cost of Production for Dairy Farmers

First Pioneer Farm Credit in cooperation with three other Northeast Farm Credit associations annually publishes a Northeast Dairy Farm Summary that includes farms located in the New England states, New York and New Jersey (copy provided). In 2006 there were a total of 525 farms that participated including 130 from the New England states.

In order to be included in the Summary, the dairy farm participants must have high quality financial records and agree to have their data included in the Summary. This is not a survey of average dairy farm costs – the farms that participate in this effort vary considerably, but on the average are larger and probably more profitable than the average dairy farm. This does serve as a good dairy production benchmark.

As you all know, 2006 was a very difficult year for dairy farmers. In fact 2006 was the worst deficit period in the 28 years of the Northeast Dairy Farm Summary. Northeast dairy farmers incurred substantial losses during 2006 and losses in the New England states were considerably higher than the Northeast region as a whole.

In the following chart we have compared some of the key production costs for New England and the Northeast.

The Cost of Producing Milk – Accrual Basis by Region

2006 Northeast Dairy Farm Summary

(Dollars Per Hundred)

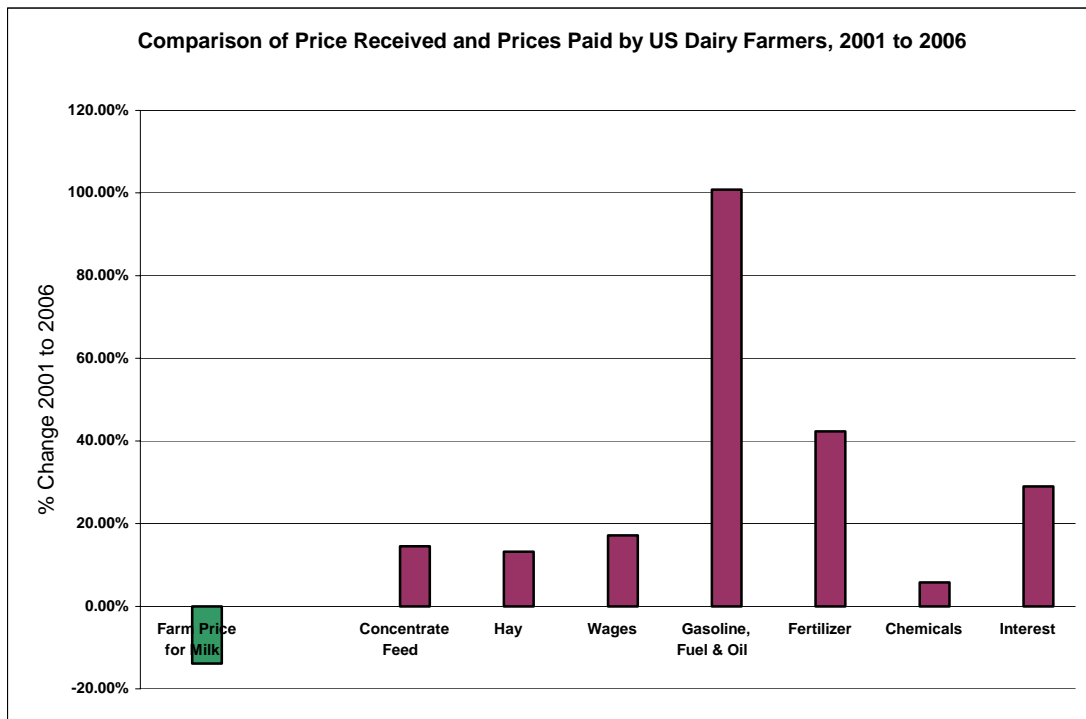
	<u>New England</u>	<u>All Farms (NE)</u>
Feed	\$ 4.69	4.25
Labor	2.89	2.71
Interest	.80	.78
Marketing	.98	.87
Crop	.73	.88
Other	5.81	5.56
Adjusted Cash Operating Expenses	15.89	15.05
+Depreciation	1.11	1.24
+Family Living	.87	.79
Total Costs	17.88	\$17.08
- Non-milk income	2.75	2.99
Net Cost of Production	\$ 15.13	\$14.09
Milk Price per CWT	\$14.00	\$13.81

As you can see in this chart, the total cost of production for the New England farms was \$17.88 per cwt. The net cost of production when subtracting out non-milk income which includes cattle, crop and other income adjusted was \$15.13 per cwt.

It is important to understand that in order to achieve a \$15.13 per cwt net cost of production last year, dairy farmers cut expenditures that are probably not sustainable over time. As a result of low farm milk prices and negative cash flows, farms cut back on repairs and other inputs that will be necessary to the future of the operation. It is also important to note that farmers cut the amount of funds taken for family living expenses – for New England farmers this cut was nearly 15%! Even with the cuts taken, New England farms in the Summary had a loss of \$1.13 per cwt in 2006 or a total average loss of \$55,000 for the year. To make up for the cash deficit, many farmers had to increase borrowings.

Cost - Farm Milk Price Squeeze

The following graph (USDA data) compares 2001 with 2006 and provides a good snapshot of what farmers faced in 2006. Farm milk prices declined dramatically, while costs associated with feed and the energy complex have increased dramatically.



The five largest cash expense categories in the Northeast Dairy Farm Summary make up nearly 65 % of the cash expense costs.

Feed	28.2%
Labor	18.0%
Supplies	6.6%
Repairs	6.4%
Freight and Trucking (Marketing)	5.8%

Four of the five top cash expense categories have increased since 2000:

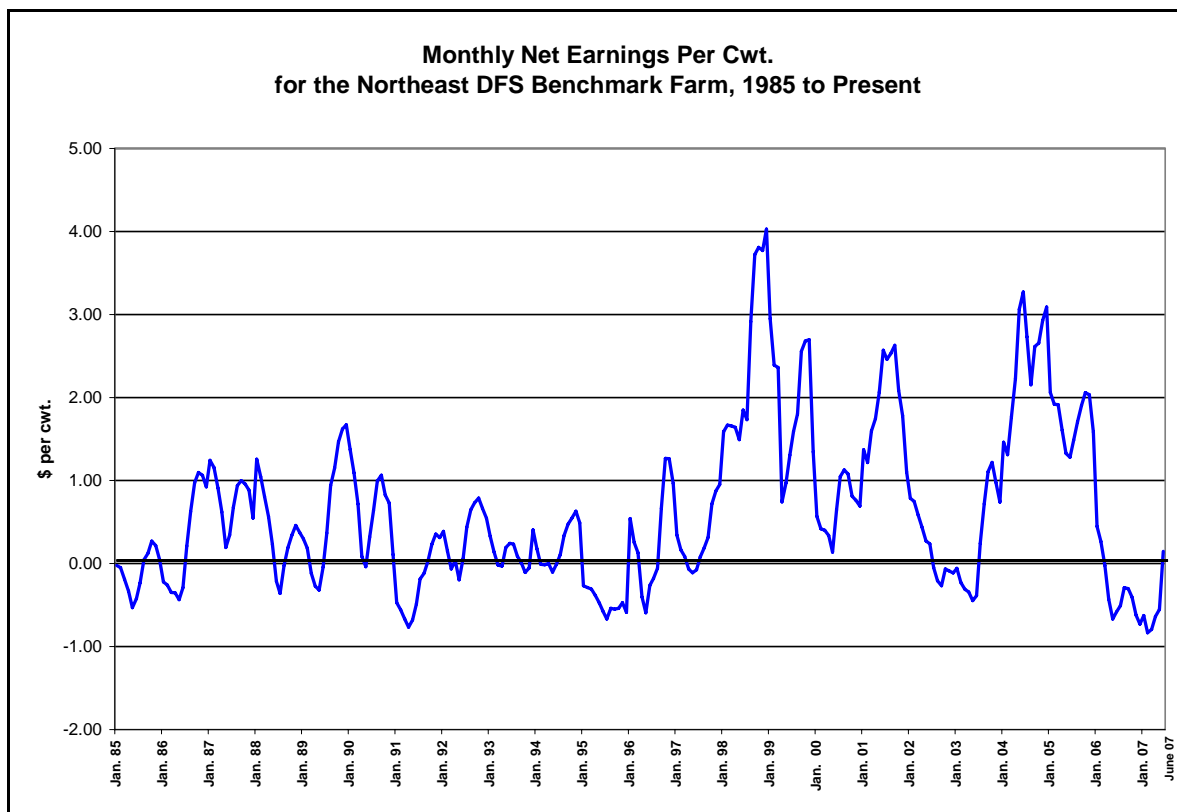
Feed	10.4%
Labor	23.2%
Supplies	15.1%
Repairs	-3%
Freight and Trucking	19.2%

Although not in the top five expense categories, cash expenditures for gasoline and other fuel has increased by 67% and utilities by 24% since 2000.

Outlook for 2007

For 2007, we anticipate that the costs of production will increase significantly for a number of reasons. The primary factor will be a substantial increase in feed costs. Corn and soybean prices rose dramatically at the end of 2006 and have remained high in 2007. In addition, producers will have to expend funds on deferred expenses including repairs. We also would anticipate that they will restore cuts taken to family living expenses, which were very deep and difficult for many farm families. For the year, energy related cost will also likely be higher. The losses that Massachusetts dairy farmers incurred last year are mostly being carried as increased debt that will also need to be repaid over time.

One of the big challenges that we face in dairy farming is the wide farm milk price fluctuations. These price swings are a result of a number of factors including federal dairy policy and national and global market changes.



Final Comments

There is no easy or significant area of cost reduction to propose to this Task Force. The fact is that many of the costs are very difficult to reduce to any great degree. Dairy farm profitability is a farm by farm situation – each farm is different in its cost structure and income and individual farms will need to continue to make changes, as they have in the past, to enhance their competitiveness and profitability. When compared to areas of the country that have significantly

increased milk production in recent years, the Northeast has certain scale and size issues that will be hard to overcome on the cost side alone. Issues relating to land availability and cost and environmental compliance are significant limiting factors.

While cost of production improvements will remain critical to the success of Massachusetts dairy farmers, the fact of the matter is that initiatives to provide increased returns from the marketplace and / or green payments or other incentives will be important to consider. At the state level, every effort should be made to reduce public sector costs that add to farmers cost of production. While these may seem small in comparison to the overall costs, they can have a significant impact when compared to net farm income or family living expense.

Thank you for this opportunity to comment.

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Northeast Dairy Farm Summary – Northeast Farm Credit Associations

Cost of Production 2000 vs. 2006

	<u>2000</u>	<u>2006</u>	<u>Change</u>	<u>Percent Change</u>
Number of Farms	506	525		
Average Number of Cows	172	242		
Receipts	Dollars Per Cwt Of Milk			
Milk Sales	13.42	13.81		
Cattle Sales	0.78	0.93		
Crop Sales	0.44	0.48		
Other	1.30	1.11		
CASH RECEIPTS (a)	15.94	16.33		
Accrual Adjustments				
+ Change in Inventory-Raised Livestock	0.07	0.27		
VALUE OF FARM PRODUCTION (c)	16.01	16.60		
Expenses				
Chemicals & Sprays	0.16	0.17	0.01	6.3%
Custom Hire	0.33	0.46	0.13	39.4%
Feed	3.85	4.25	0.40	10.4%
Fertilizer & Lime	0.44	0.44	0.00	0.0%
Freight & Trucking (Marketing)	0.73	0.87	0.14	19.2%
Gasoline, Fuel & Oil	0.43	0.72	0.29	67.4%
Insurance	0.26	0.24	-0.02	-7.7%
Interest	0.85	0.77	-0.08	-9.4%
Labor	2.20	2.71	0.51	23.2%
Rent	0.37	0.29	-0.08	-21.6%
Repairs	1.00	0.97	-0.03	-3.0%
Seed & Plants	0.22	0.28	0.06	27.3%
Supplies	0.86	0.99	0.13	15.1%
Taxes	0.29	0.28	-0.01	-3.4%
Utilities	0.38	0.47	0.09	23.7%
Veterinary, Medicine & Breeding	0.61	0.77	0.16	26.2%
Other	0.36	0.32	-0.04	-11.1%
Cow Replacements	0.16	0.06	-0.10	-62.5%
ADJUSTED CASH OPERATING EXPENSES** (b)	13.50	15.06		
Accrual Adjustments				
+ Depreciation	1.18	1.24		
ADJUSTED FARM OPERATING EXPENSES (d)	14.68	16.30		
NET FARM INCOME (a) - (b)	2.44	1.27		
NET FARM EARNINGS (c) - (d)	1.33	0.30		
+ Net Nonfarm Income	0.25	0.20		
- Family Living & Income Taxes	1.08	0.80		
NET EARNINGS	0.50	-0.30		